

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 PA-02 PRS-01 /093 W
-----060356Z 073295 /66

R 052033Z APR 77
FM AMEMBASSY BUENOS AIRES
TO SECSTATE WASHDC 9883

UNCLAS BUENOS AIRES 2538

E.O. 11652: N/A
TAGS: EFIN, AR
SUBJECT: GOA 1977 BUDGET

REF: BUENOS AIRES 0440

1. ON APRIL 1, THE GOA MADE PUBLIC ITS 1977 BUDGET, CALLING FOR EXPENDITURES OF 3,170 BILLION PESO, RECEIPTS OF 2,672 BILLION AND A DEFICIT (GOA CONCEPT) OF 498 BILLION. USING THE IMF CONCEPT, THE DEFICIT IN 1977 IS EXPECTED TO REPRESENT 3 PERCENT OF GDP AS COMPARED WITH 7.8 PERCENT IN 1976 AND 12.5 PERCENT IN 1975. SOME OF THE HIGHLIGHTS ON BOTH THE REVENUE AND EXPENDITURE SIDE ARE SUMMARIZED BELOW:

2. REVENUE: ACCORDING TO THE INTRODUCTION OF THE BUDGET, THE 1977 GLOBAL TAX BURDEN, INCLUDING TAXES AT BOTH THE NATIONAL AND PROVINCIAL LEVEL AND SOCIAL SECURITY CONTRIBUTIONS WILL TOTAL 24.5 PERCENT OF GDP, THE HIGHEST RATE EVER EXPERIENCED IN ARGENTINA. INCREASES IN TAX REVENUE FOR THE TREASURY BUDGET ARE EXPECTED FROM SUCH MEASURES AS: INDEXATION OF TAX DEBT; EMERGENCY TAXES (E.G. FOUR PERCENT AGRICULTURAL PRODUCTION TAX AND ONE PERCENT TAX ON DEBITS); THE REVALUATION OF PROPERTY FOR TAX PURPOSES;
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THE REPLACEMENT OF SPECIFIC WITH AD VALOREM TAXES; A SUBSTANTIALLY HIGHER FUEL TAX AND A SERIES OF MEASURES TO PUNISH TAX EVADERS AND ENCOURAGE SOME OF THEM TO PAY BACK TAXES AND FINES IN RETURN FOR "WHITEWASHING" -- A FORM OF FISCAL ABSOLUTION (WHITEWASHING ALONE IS EXPECTED TO YIELD OVER 100 BILLION PESOS OR AROUND 20 PERCENT OF THE EXPECTED FINAL DEFICIT). REVENUE

FROM EXPORT TAXES, ON THE OTHER HAND, WILL DELCINE SUBSTANTIALLY (2.9 PERCENT OF REVENUE VERSUS 15.3 PERCENT IN 1976), AS THE GOA HAS MOVED TO STIMULATE EXPORTS. IN ADDITION, THE GOA WILL RELY LESS HEAVILY ON THE USE OF CREDIT (19.6 PERCENT OF REVENUE VERSUS 25 PERCENT IN 1976).

3. EXPENDITURES: THE BUDGET INCREASES THE SHARE OF THE ALLOCATION FOR CAPITAL EXPENDITURES, WITH 19.1 PERCENT OF THE BUDGET DESIGNATED FOR CAPITAL GOODS AND CONSTRUCTION (17.1 PERCENT IN 1976). PUBLIC INVESTMENT IN 1977 IS EXPECTED TO REACH 13 PERCENT OF GDP AND, IF PRIVATE INVESTMENT IS ADDED, TOTAL INVESTMENT IN 1977 WOULD EQUAL ABOUT 23 PERCENT OF GDP. INTERESTINGLY, THE SHARE OF EXPENDITURES ALLOTTED TO PERSONNEL ALSO INCREASES FROM 19.1 PERCENT IN 1976 TO 23.1 PERCENT IN 1977 -- AN INDICATION THAT THE INCREASE IN SALARIES AND SEPARATION PAYMENTS WILL MORE THAN OFFSET ANY REDUCTION IN SALARY PAYMENTS FROM THE DISMISSAL OF PUBLIC EMPLOYEES. SUBSIDIES TO STATE ENTERPRISES AND THE PROVINCES ARE REDUCED SUBSTANTIALLY AND IN THE CASE OF BUENOS AIRES TOTALLY ELIMINATED. AREAS RECEIVING A GREATER SHARE OF THE BUDGET INCLUDE: DEFENSE (13.1 PERCENT); SECURITY (4.5 PERCENT); AND SOCIAL WELFARE (13.6 PERCENT). GENERAL ADMINISTRATION RECEIVED THE LARGEST CUT, FROM 15.3 PERCENT IN 1976 TO 8.6 PERCENT IN 1977.

4. COMMENT: THE BUDGET IS AMBITIOUS, RELYING MORE ON AN INCREASE IN REVENUE THAN ON A REDUCTION IN EXPENDITURES.
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GIVEN THE TRADITIONAL ARGENTINE AVERSION TO THE PAYMENT OF TAXES, THE REVENUE ESTIMATES ARE PROBABLY SOMEWHAT OPTIMISTIC.

5. BUDGET TABLES AND COMMENT IN GEATER DETAIL WILL FOLLOW BY AIRGRAM.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET
Control Number: n/a
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
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Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770119-0217
Format: TEL
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770488/aaaacysf.tel
Line Count: 104
Litigation Code IDs:
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Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 834c79aa-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 BUENOS AIRES 440
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2897812
Secure: OPEN
Status: NATIVE
Subject: GOA 1977 BUDGET
TAGS: EFIN, AR
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/834c79aa-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009